

The Reagan Budget: 'Spending Is the Problem, Not Taxes'

Text of Message by the President Outlining His Spending Plan

WASHINGTON, Feb. 5 (AP) — Following is the Budget Message that President Reagan sent to Congress today:

To the Congress of the United States: The economic expansion we are now enjoying is one of the most vigorous in 35 years. Family income is at an all-time high; production and productivity are increasing; employment gains have been extraordinary, and inflation, which raged at double-digit rates when I took office, has been reduced dramatically. Defense capabilities, which had been dangerously weakened during the 1970's, are being rebuilt, restoring an adequate level of national security and deterrence to war. Moreover, an insupportable growth in tax burdens and Federal regulations has been halted.

Let me give you a few highlights:

- Employment has grown by 8.2 million in the past three years, while the unemployment rate has fallen by three and eight-tenths percentage points; during the three years preceding my Administration, employment grew by only 3.5 million and the unemployment rate rose eight-tenths of a percentage point.

- The highest proportion of our adult population (60 percent) is now at work, with more blacks and other minorities employed (14 million) than ever before.

- Inflation, which averaged 11.6 percent a year during the three years before I took office, has averaged only a third of that — 3.8 percent — during the last three years.

- Real G.N.P. has grown at a 4.5 percent annual rate during the past three years, compared with only a 2.2 percent rate during the last three years of the previous Administration.

- The prime rate of interest and other key interest rates are less than half what they were when I took office.

- Some 11,000 new business incorporations have been generated every week, and since early 1983, investment in plant and equipment has risen 44 percent in real terms.

- During the past three years, industrial production has risen by 25 percent.

- During the same time period, corporate profits increased 117 percent and stocks nearly doubled in value.

- Federal tax revenues have returned to historic levels of approximately 18½ percent of G.N.P., as tax rates have been cut across the board and inflation.

- As a result of all of the above, real after-tax income has risen 10.8 percent during the last three years, an average increase of \$2,500 for each American household.

- Eliminated Many Barriers

This dramatic improvement in the performance of our economy was no accident. We have put in place policies that reflect our commitment to reduce Federal Government intrusion in the private sector and have eliminated many barriers to the process of capital formation and growth. We continue to maintain a steadfast adherence to the four fundamental principles of the economic program I presented in February 1981:

- Reducing the growth of Federal spending;

- Limiting tax burdens;

- Relieving the economy of excessive regulation; and

- Supporting a sound and stable monetary policy.

Conditions are now in place for a sustained era of national prosperity. But, there is a major threat looming on the horizon: the Federal deficit. If this deficit is not brought under control, we risk losing all we've achieved, and more.

We cannot let this happen. Therefore, the budget I am presenting has as its major objective setting the deficit on a downward path to a balanced budget by 1991. In so doing, my budget meets or exceeds the deficit reduction targets set in the Balanced Budget and Emergency Deficit Control Act, commonly known for its principal authors as Gramm-Rudman-Hollings.

At the end of the last session of Congress, there emerged a bipartisan consensus that something had to be done about the deficit. The result, Gramm-Rudman-Hollings, committed both the President and the Congress to a fixed schedule of progress. By submitting this budget, I am abiding by the law and keeping my part of the bargain.

The budget shows, moreover, that eliminating the deficit is possible without raising taxes, without sacrificing our defense preparedness and without cutting into legitimate programs for the poor and the elderly. A tax increase would jeopardize our prospects for expansion and might well prove counterproductive in terms of its effect on the deficit.

We can hardly back away from our defense buildup without creating confusion among friends and adversaries alike about our determination to maintain our commitments and without jeopardizing our prospects for meaningful arms control talks. And frankly we must not break faith with those poor and elderly who depend on Federal programs for their security.

The Deficit And Economic Growth

Until the Second World War, the Federal budget was kept in balance or ran a surplus during peacetime as a matter of course. But in the early 1960's this traditional fiscal discipline and political restraint began to break down. We have run deficits during 24 of the last 25 years. In the past 10 years, they have averaged 2.5 percent of G.N.P. But last year the deficit was over 3 percent of G.N.P. This trend is clearly in the wrong direction and must be reversed.

Last year's deficit amounted to nearly \$1,000 for every man, woman and child in the United States. To eliminate the deficit solely by increasing taxes would mean imposing an



READING MATERIAL: Eddie Beck, left, an employee of the Government Printing Office bookstore, helping Brad Burnsted, a reporter, pack a box with copies of the new budget. Copies of the document sell for \$13.

extra \$2,400 burden on each American household. But taxes are already higher relative to G.N.P. than they were during the 1960's and early 1970's, before inflation pushed them to levels that proved insupportable. The American people have made it clear they will not tolerate a higher tax burden. Spending is the problem, not taxes, and spending must be reduced to desperate measures.

The program of spending cuts and other reforms contained in my budget will lead to a balanced budget at the end of five years and will thus remove a serious impediment to the continuation of our economic expansion. As this budget shows, such reforms can be accomplished in an orderly manner, without resorting to desperate measures.

Inappropriate and outmoded programs, and activities that cannot be made cost-effective, must be ended. Activities that are essential, but that need not be carried out by the Federal Government, can be placed in the private sector or, if they are properly public in nature, in the State and local governments. As explained in the management report I am also submitting today, efficiencies can be realized through improved management techniques, increased productivity, and program consolidations.

The need to cut unnecessary Federal spending and improve management of necessary programs must be made a compelling guide to our policy choices. The result will be a leaner, better integrated, more streamlined Federal Government, stripped of marginal, nonessential and inappropriate functions and activities, and focusing its energies and resources entirely on its proper tasks and constitutional responsibilities.

That way, resources will be allocated more efficiently: those things best done by government will be done by government; those things best done by the private sector will be directed by the marketplace.

The Balanced Budget and Emergency Control Act (Gramm-Rudman-Hollings) requires that spending be reduced in accord with a prescribed formula if projected deficits exceed the predetermined targets. This mechanism will operate in a limited fashion during the current fiscal year. However, we should avoid such across-the-board cuts in the future, and they will not be necessary if Congress adopts this budget. Achieving budget savings by taking into account relative priorities among programs is a much better way than resorting to an arbitrary formula. The latter could dangerously weaken vital programs involving the national security or public health and safety, while leaving marginal programs substantially intact.

If the spending cuts and other reforms proposed in this budget are approved, the Federal deficit will be reduced by \$168 billion over the next three years. This represents about \$700 for every individual American and about \$1,000 for every household. I believe this is the appropriate way to deal with the deficit: cut excessive Federal spending rather than attack the family budget by increasing taxes, or risk a deterioration in our national posture and self-confidence with the dependent poor and elderly.

Restructuring and Returning the Federal Government To Its Proper Role

The task of reducing the deficit must be pursued with an eye toward narrowing the current wide scope of Government activities to the provision of those, but only those, necessary and essential services toward which all taxpayers should be contributing — and providing them as efficiently as possible. This is the underlying philosophy that I have used in shaping this year's budget. Let me explain.

High-priority programs should be adequately funded. Despite the very tight fiscal environment, this budget provides funds for maintaining the status quo in some cases and high-priority programs in crucial areas of national interest. Necessary services and income support for the dependent poor and the elderly receive significant funding in this budget. So do other programs of national interest, including drug enforcement, AIDS research, the space program, nonmilitary research, and national security.

While national security programs continue to be one of my highest priorities, they have not been exempt from general budgetary stringency. Last summer, I reluctantly agreed with Congress to scale back the planned growth of defense appropriations to

a zero real increase for 1986 and only a 3 percent real increase each year thereafter. Congressional action on 1986 appropriations and the subsequent sequestration for 1986 under Gramm-Rudman-Hollings have cut defense budget authority well below last year's level.

The budget I am submitting would return defense funding to a steady, well-managed growth pattern consistent with the program levels agreed to in last year's budget resolution and consistent with what the country needs in order to provide for our national security.

Military Spending Trend

During the past five years, we have reversed the decline in defense spending and have made significant progress in restoring our military capabilities.

The moderate increases that are now requested are necessary to maintain this progress and enable us to move forward with meaningful arms reduction negotiations with the Soviet Union.

Unnecessary programs are no longer affordable. Some Government programs have become outmoded, have accomplished their original purpose, represent an inappropriate area for Federal involvement in the first place, or are marginal in the current tight budgetary environment.

If it would not be appropriate or feasible for the private sector or for State or local governments to assume such functions, this budget proposes that programs of this variety be terminated immediately, phased out in an orderly manner, or eliminated when their legal authority expires.

Examples include Small Business Administration credit programs, Amtrak grants, Urban Development Action Grants, the Appalachian Regional Commission, the Economic Development Administration, the Interstate Commerce Commission, Maritime Administration loan guarantees, education subsidies for health professionals, the work-incentives program and subsidies for air carriers.

Many other programs should be reduced to a more appropriate scale. Some Federal programs have become overextended, misdirected, or operate on too expansive a scale even under the current tight budgetary environment.

This budget proposes reforms to limit the cost of the future growth of Medicare and Medicaid, subsidized housing, Civil Service pensions and health benefits, postal subsidies, interstate highway grants, the Forest Service and many other programs.

Commercial-Ty Operations

The Government should not compete with the private sector. Traditionally, governments supply the type of needed services that would not be provided by the private marketplace.

Over the years, however, the Federal Government has acquired many commercial-type activities. In most cases, it would be better for the Government to get out of the business and stop competing with the private sector and in this budget I propose that we begin that process.

Examples of such "privatization" initiatives in this budget include sale of the power plants, construction of new and surplus petroleum reserves; and implementation of housing and education voucher programs. I am also proposing the sale of unneeded assets, such as loan portfolios and surplus real estate and contracting out appropriate Federal services.

Many services can be provided better by State and local governments. Over the years, the Federal Government has pre-empted many functions that properly ought to be operated at the State and local level.

This budget contemplates an end to unwarranted Federal intrusion into the State and local sphere and restoration of a more balanced, constitutionally appropriate federalism with more clearly delineated roles for the various levels of government.

Examples include new consolidations of restrictive small categorical grant programs into block grants for transportation and environmental protection, at reduced Federal levels. Construction funds are maintained for existing block grants for social services, health, education, job training, and community development.

Administration of the agricultural extension service should be turned over to State and local governments.

Also, the Federal Government should get out of the business of paying for local sewage treatment systems, local airports, local law enforcement, subsidies to State maritime schools and local coastal management.

Cut in Burdens Sought

Remaining Federal activities should be better managed. As we proceed with the deficit reduction process over the next several years, it is important that all remaining Federal operations be well managed and coordinated to avoid duplication, reduce costs and minimize regulatory burdens imposed on the private sector.

Management efficiencies must accompany the process of developing a leaner, more carefully focused Federal role. We can no longer afford unnecessary overhead and inefficiencies when we are scaling back the role and cost of the Federal Government.

Substantial savings in overhead costs have been achieved under provisions of the Deficit Reduction Act of 1984.

As described in my management report, more savings are possible, and these effects are incorporated in this budget.

Outmoded, inefficient systems of agency cash and credit management are being replaced; administrative policies and procedures, approaches to automatic data processing and agency field structures will be streamlined and upgraded; and waste, fraud and abuse will be further reduced.

All these initiatives, part of our Reform '88 program, will take advantage of efficiencies made possible by modern management techniques, improved communications and new information technology.

We shall run the Federal Government on a businesslike basis, improving service delivery and reducing taxpayer costs. Administration of Federal agencies will be made more efficient through the adoption of staffing standards, automation of manual processes, consolidation of similar functions and reduction of administrative overhead costs.

Management of Portfolio

A program to increase productivity by 20 percent by 1992 in all appropriate Government functions is being instituted and a major effort is proposed to revamp our outmoded management of a \$250 billion Federal credit portfolio.

This effort will include establishing pre-screening, origination fees, administration and penalty charges, use of collection agencies, charging appropriate interest rates and the sale of loan portfolios.

Our management improvement program will result in a leaner and more efficient Federal structure and is described in greater detail in my separate management report. Improving the management of the Government must be considered a crucial role and the priority it deserves.

We must also reduce unnecessary costs and burdens on the non-Federal sector and have already made considerable progress in reducing the costs imposed on businesses and State and local governments by Federal regulations.

These savings are estimated to total \$150 billion over a 10-year period.

We have reduced the number of new regulations every year I have been in office and have eliminated or reduced paperwork requirements by over 500 million hours.

In addition, regulations are now more carefully crafted to achieve the greatest public protection for the least cost and wherever possible to use market forces instead of working against them.

Finally, user fees should be charged for services where appropriate. Those who receive special benefits and services from the Federal Government should be the ones to bear the costs of those services, not the general taxpayer.

Accordingly, this budget imposes fees and premiums for Federal guarantees of loans and imposes user fees and charges for Federal cost recovery for meat and poultry inspection, national park and forest facilities, harbor and inland waterway services, Coast Guard inspections and for many other services.

There Was a Surplus, Once

By HAROLD FABER

"The national debt has been paid!" Only once in the history of the United States has that word been uttered accurately. It was a century and a half ago that Senator Thomas Hart Benton of Missouri stood before an audience celebrating the anniversary of the Battle of New Orleans and, in his florid style, said:

"This month of January 1835, in the 58th year of the Republic, Andrew Jackson being President, the national debt is paid! And the apparition, so long unseen on earth — a great nation without a national debt! — stands revealed to the astonished vision of a wondering world!"

Improbable as it may seem now, when the national debt exceeds \$2 trillion, the Government was not only free of debt, but it had a surplus \$19 million in the Treasury.

That happy time lasted for little more than two years, from 1835 to 1837. Unlikely as it may sound, the surplus created a major problem for Congress. What was Washington to do with the money?

The problem lay in the United States Constitution. Disposing of surplus money, especially giving it to the States, was not one of the powers enumerated for Congress.

Reform of the Budget Process

Over the years, Federal spending constituencies have become increasingly powerful. In part because of their strong and effective advocacy, Congress has become less and less able to face up to its budgetary responsibilities.

The Congressional budget process is foundering; last year it fell apart time and time again.

The budget resolution and appropriations bills were months late in passing, and few real deficit reductions were achieved.

Gramm-Rudman-Hollings offers a significant opportunity to avoid many of these problems in the future.

That act not only sets deficit targets leading to a balanced budget by 1991, it provides a mechanism for automatic spending cuts and incorporates certain reforms in the budget process itself.

But Gramm-Rudman-Hollings does not go far enough in this regard:

To meet the clear need for a greatly strengthened budget process, I propose a number of additional reform measures.

As before, I ask Congress to pass a balanced budget amendment to the Constitution. In addition, I continue to seek passage of a line-item veto, authority now possessed by 43 of the nation's governors.

I also urge, for 1988 and beyond, changing the budget resolution to a joint resolution subject to Presidential signature and establishing binding expenditure subcategories within the resolution budget totals.

Moreover, I urge that serious study be given to proposals for multiyear appropriations and to the development of a capital budget.

As I have pointed out time and again, there's not a state in the union that doesn't have a better budget process than the Federal Government.

We can, and must, do better.

Conclusion

As I said in my address to Congress yesterday, the state of the Union is strong and growing stronger.

We've had some extraordinarily good years and our economy is performing well, with inflation coming under control.

Economic growth and investment are up, while interest rates, tax rates and unemployment have all come down substantially.

Our national security is being restored. The proliferation of unnecessary and burdensome Federal regulations has been halted.

A significant beginning has been made toward curbing the excessive and unsustainable growth of domestic spending.

Improving the management of the Government has been given priority and is achieving results.

I think most Americans would agree that America is truly on the move.

The large and stubbornly persistent budget deficit remains as a dark and threatening cloud on the horizon.

It threatens our prosperity and our hopes for continued healthy economic growth. Congress has recognized this threat.

It has mandated a gradual, orderly movement to a balanced budget over the next five years.

The proposals in this budget are a blueprint for achieving those targets while preserving legitimate programs for the aged and needy, providing for our national security and doing this without raising taxes.

I realize it will be difficult for elected officials to make the hard choices envisioned in this budget.

But we must find the political will to face up to our responsibilities and resist the pleadings of special interests whose "era of power" in Washington must be brought to an end, for taxpayers as a whole can no longer be expected to carry them on their backs.

All this will call for statesmanship of a high order.

We must all realize that the deficit problem is also an opportunity, an opportunity to construct a new, leaner, better focused and better managed Federal structure.

Let's do it.

I look forward to working with Congress on meeting these formidable challenges. It is our job.

Let's get on with it.

RONALD REAGAN
Feb. 5, 1986

Budget Totals						
Rounded figures in billions of dollars. Figures for 1985 are actual; others are estimates.						
	1985	1986	1987	1988	1989	1990
Receipts	\$734.1	\$777.1	\$850.4	\$ 933.2	\$ 998.1	\$1,058.1
Outlays	946.3	879.9	994.0	1,028.8	1,063.6	1,093.8
Deficit/surplus	-212.3	-202.8	-143.6	-93.6	-67.5	-35.8

Source: Office of Management and Budget

Text of President's Address to Congress on State of the Union

Despite the pressures of our modern world, family and community remain the moral core of our society, guardians of our values and hopes for

I mentioned that we will meet our commitment to national defense. We must meet it. Defense is not just an

As we knock down the barriers to growth, we must redouble our efforts for freer and fairer trade. We have already taken actions to counter unfair trading practices and to pry open closed foreign markets. We will continue to do so. We will also oppose legislation touted as providing protection that in reality pits one American

We are a nation of idealists, yet today there is a wound in our national conscience; America will never be whole as long as the right to life granted by our creator is denied to the unborn. For the rest of my life, I

family of free nations — we say to you tonight: you are not alone freedom fighters. America will support with moral and material assistance your right not just to fight and die for freedom, but to fight and win freedom — in Afghanistan, Angola, Cambodia,

cial added that the President "didn't | going forward to build our space sta-

In his address, Mr. Reagan celebrated what he termed a "great American comeback" following years of "locked factory gates and long gasoline lines, intolerable prices and interest

place programs enacted in the name of compassion that degrade the moral worth of work, encourage family break-ups and drive entire communities into a bleak and heartless dependency."

iron in your hands, with all the temptations young people face, it sometimes seems the allure of this permissive society requires superhuman feats of self-control. But the call of the future is too strong, the challenge

Ford. A child prodigy of gospel music, he has surmounted personal adversity to become an accomplished pianist and singer. He also directs the choirs of three churches and has per-

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David Russell, first selectman of New Jersey, said they were "dramatic, some would say, radical" proposals. "I think it says something about the gravity of the problem," he said.

America must meet another — to make our strategic defense real for the citizens of Planet Earth.

rica's future. America's hopes rest with us. So let us go forward to create our world of tomorrow — in faith, in unity, and in love. God bless you, and God bless America.